SAN DIEGO REINVESTMENT TASK FORCE

Analysis and Response to Foreclosures in Low-Moderate Income Communities of San Diego

September 2007

Sub-Committee Report

Bob Adelizzi
Lynn Hastings
Wendell French
George Harris III
Jim Schmidt
Venus Molina

Technical Assistance By
Steve Bouton
Schahrzad Berkland

Jim Bliesner
Reinvestment Director

ANALYSIS AND RESPONSE TO FORECLOSURES IN LOW AND MODERATE INCOME COMMUNITIES OF SAN DIEGO.

Preface

The San Diego Reinvestment Task Force (RTF) is charged with the responsibility of "monitoring lending practices and developing strategies for reinvestment". It was formed by City Council and County Board resolution in 1977. Its specific concern is private lending and credit policies and practices in low and moderate-income communities as defined by the Community Reinvestment Act. The RTF, as a practice attempts to regularly examine available data in these communities to identify strengths and weaknesses related to economic health and to propose responses in the case of disinvestment. The RTF has evolved as a close partnership between government, lenders and the community with a sound record of success and effectiveness.

The RTF received testimony in June of 2005 regarding the impending foreclosure problem and in its three-year work plan, approved in April of 2006, directed staff to undertake further analysis and develop a strategy for response to the evidence.
The RTF contracted with Steve Bouton and Associates to do a study mapping the incidents of home loan foreclosures as compared to sub prime home loans. **(ATT 1)** The research showed that communities that were predominantly ethnic and or low-income experienced higher levels of both sub prime loans and foreclosures. The research illustrated that the volume of foreclosures was and will be coterminous with the volume of sub prime loans and that the lending peak was reached in 2006. At that time it was projected that the cycle of foreclosures would last through 2009.

Over the past four months (May-August, 2007) the RTF has used its regular monthly meeting to hear evidence related to the current state of affairs with the foreclosure environment as well as to work through a sub committee to do a summary review of 1) current conditions, 2) possible causes, 3) remediation.

The source of capital for most sub-prime and the majority of predatory loans have come from unregulated mortgage lenders.**(ATT 2)** Some of those have established linkages (as subsidiaries) with major lenders while most do not. Investors have provided initial capital and long-term capital has been provided by resale of mortgages into the secondary markets through securities. A major buyer of sub prime securities has been Fannie Mae and Freddie Mac. Other major buyers and subsequently lenders leading in foreclosures include investors and banks from Germany (Deutsche bank), France (BNP Paribas), China and Japan. Loan servicing for unregulated lenders is being done by regulated, mainstream lenders such as Countrywide and Wells Fargo) The California. Department of Corporations licenses mortgage banks to make home loans in the state but does not regularly monitor their rates or locations as required by federal bank regulators.. On a national level, several Wall Street investment firms have been negatively affected by their reliance on securitizing and leveraging financial obligations resulting in neutral or sell recommendations from market analysts. This in turn has had an ongoing negative effect on US and foreign markets.

Proposed remediation is focused on pending federal and state legislation and the need for key provisions and conditions. The need for regulations related to mortgage brokers and bankers is central to future restrictions on predatory lending. The third level of remediation is related to increased capacity of local organizations to assist residents in avoiding foreclosure. Finally the recommendations address the need to diminish the negative impacts of foreclosures on the quality of life of San Diego neighborhoods.

Background

The mortgage market has dramatically changed. Thirty years ago regulated financial institutions originated, serviced and held in their portfolio primarily 30 year fixed rate loans repaid with equal monthly-amortized payments. Their underwriting standards were as inflexible as the mortgage product itself.

In the ensuing years, the components of the business of originating, servicing, and investing were separated. A plethora of new products were introduced. Freddie and FNMA became the principal investor for so-called "conforming" mortgages. The mortgage security became a global financial product. Wall Street "sliced and diced" mortgages to offer investors the opportunity to purchase securities with different interest and credit risk characteristics that matched their unique investment criteria. A giant new industry was created. This "reengineering" of the mortgage transformed the mortgage into a commodity and created a greater demand for the product as a financial instrument."

Independent mortgage originators are paid significant fees to originate mortgages regardless of how the mortgage performs (no incentive to originate high quality loans and they often received additional incentives to originate loans with higher spreads --sub prime loans).

Mortgage service companies bear interest rate and credit risk. When interest rates change they risk losing their portfolios as borrowers refinance. Generally, they are more profitable servicing performing loans that do not require individual treatment thus creating a disincentive to counsel and work with borrowers. Often their loan-servicing contract restricts their ability to work with borrowers.

Creative and complex loan products became increasingly more risky and esoteric as low interest rates and excess global capital created a huge appetite for these products. This created a market for "sub prime loans"--higher risk loans with bigger spreads.

Although borrowers had greater access to credit, they didn't understand these new loan products they were sold. They focused on the availability of funds with affordable initial payments often at low "teaser" rates. They ignored or didn't understand that when these loans "reset" at higher rates they were unaffordable.

There was a large increase in the number of non-traditional mortgage originators, loan serving entities and investors who flocked to this new industry. Many of the new originators were often untrained, unprofessional and unscrupulous. The often-targeted markets and borrowers to originate loans that paid the highest commissions. Often the borrower didn't need or understand the loan they received.

The regulatory and supervisory structure for this new industry was inadequate and unprepared. This new system worked well as long as housing demand was strong and prices continued to increase enabling consumers to either refinance or sell their homes. However, as in every strong market there is a leveling. The music has stopped. Investors will lose money, some businesses that service loans will go out of business, and the number of mortgage originators will decline and many homeowners will lose their homes and their credit rating.

Impacts on Communities

While the following events impact all communities and neighborhoods, they bear more heavily on low/moderate income communities where the foreclosure rates will be higher due lower family incomes and predatory lending practices. Significant numbers of foreclosures are occurring and will continue for at least the next two years particularly in the more vulnerable low-income communities.

Spreads increase for mortgage debt as investors reassess the securities they own. This "flight to quality" will make capital more costly for all mortgage borrowers but particularly for low-income higher risk borrowers. Property values will decline as consumers have more difficulty selling existing homes and foreclosed real estate reenters the market at lower prices.

Foreclosed real estate negatively impacts neighborhoods, including neighborhood schools. Foreclosed borrowers will have difficulty restoring their credit rating, potentially eliminating their ability to be a future homeowner. Borrowers are uninformed about their alternatives when they are unable to make their payments. Staffs who service loans are unprepared to manage borrower inquiries. Loan counseling agencies are understaffed and under funded. Some mortgage lenders have gone bankrupt and left properties unattended. Large volumes of foreclosures with a declining market and restriction of credit may lead to serious blight conditions in some communities.

All of these factors contribute to potential decline in the quality of life in low and moderate-income communities as they have received the highest levels of concentrated sub prime loans and consequent foreclosures. Absentee owned, foreclosed properties, vacant and not regularly managed represent a serious problem and could cause further decreases in property values and increases in crime. The need to monitor and respond to this situation on a local level is significant.

Possible Causes

- There is not one but rather a spectrum of causes ranging from the individual borrower speculation to federal monetary policy.
- Unregulated funds from new state licensed mortgage lenders, many of which are no longer in business, offered highly competitive sub-prime and predatory loan product.
- Home mortgage brokers being paid double and triple commissions for sub prime and predatory home loans targeted at low income and ethnic borrowers.
- Lack of state supervision or authority to regulate interest rates and loan terms coupled with a lack of intent to do so.
- Absence of supervision over Fannie Mae and Freddie Mac and their policies related to securities purchase of sub prime and predatory home loan products.
- Indications of intentional targeting of low income and ethnic communities by mortgage brokers for sub prime and predatory products resulting in concentrations of these loans and subsequent foreclosures.
- No national regulations related to securities and leveraged finance obligations for Wall Street investments

Current Conditions

- Ongoing increases in foreclosures of single-family homes with highest concentrations in low income and ethnic dominant census tracts and predominantly sub prime products. **(ATT 3)**
- Ongoing decrease in property values. **(ATT 3)**
- Decreased access to home mortgage credit. **(ATT 4)**

- An ongoing fluctuation in securities markets which alternately increase and decreases homebuyer credit access and destabilizes lending industry on Wall Street. **(ATT 4)**

- Continuing failure of state licensed mortgage lenders. **(ATT 4)**

- Disappearance of 42,000 mortgage brokers nationally with proportionate share in the SD region. **(ATT 5)**

- Slowly evolving federal legislation **(ATT 6)** with primary response coming from Federal Reserve Bank release of discount credit to member banks which is intended to infuse more capital into home mortgage lending thereby encouraging refinance and new mortgage borrowing.

- General lack of adequate funding for local non-profits to do early intervention home mortgage foreclosure counseling in spite of local efforts to coalesce these services and increase skills.

Recommended Actions

Local Actions

- The RTF should work with City and County housing agencies to examine the feasibility of creating a regional land bank to purchase foreclosed, bank owned properties on the market over nine months for the purpose of establishing first time affordable homebuyers initiative.

- Request that City and County CDBG Departments seek to increase grant making to non-profits involved in financial education and home loan foreclosure (HUD certified).

- The RTF should work in collaboration with United Way, San Diego Foundation and major lender foundations to increase funding and capacity of non-profits providing financial education to build skills in foreclosure prevention.

- The RTF should work in partnership with local non-profits and state coalitions to negotiate with major lenders for reasonable workout programs and loan products for customers experiencing foreclosure.

- Request that the city, county and state legal authorities develop an enforcement strategy for interdicting, reducing and removing predatory mortgage lending practices in the region including the review of potential securities violations.

- The RTF should request that the City and County establish an ordinance regarding inspection and monitoring of foreclosed properties for code violations and on going maintenance.

- The RTF should request that County Tax Assessor monitor and notice delinquencies in tax payments with bank owned/ foreclosed properties.

Legislative/Administrative

- Request that City and County lobbyists pursue federal and state legislation which;
  - provides increased funding of non-profits for foreclosure counseling
  - establishes rules and regulations for unregulated mortgage companies and brokers
  - applies the Community Reinvestment Act to credit unions, mortgage companies
  - expands lending capacity of VA and FHA for foreclosure alternatives
  - increases oversight of securities markets, mortgage brokers and state licensed mortgage lenders

- Lobby for State Department of Corporations and Banking to establish regulations for mortgage brokers and mortgage lenders that define standards for full disclosures, restrict steering and misrepresentation.

- The RTF should work with appropriate congressional offices to request that FNMA and Veterans Administration modify loan limits to adjust for cost of housing in the San Diego market.

- The RTF should work with appropriate congressional offices to encourage FNMA and Veterans Administration to develop foreclosure alternative loan products, to engage in aggressive marketing efforts and to include financial education assistance through local non-profits.

- Request that Federal Reserve Bank or appropriate legislation establish guidelines for hedge funds and securities that are related to sub prime single home mortgages.

ATTACHMENT 1	-	summary-RTF Report by Bouton and Associates
ATTACHMENT 2	-	diagram of sub prime capital sources
ATTACHMENT 3	-	charts illustrating foreclosures and property values
ATTACHMENT 4	-	article and charts from EIR regarding securities markets and FRB capital access
ATTACHMENT 5	-	quote from HUD official
ATTACHMENT 6	-	NCRC legislative chart

ATTACHMENT 1

Preliminary Analysis Factors Effecting Foreclosures

Presented to San Diego City-County Reinvestment Task Force

Presented by Bouton & Associates
Steve Bouton
(619) 579-9099

Findings

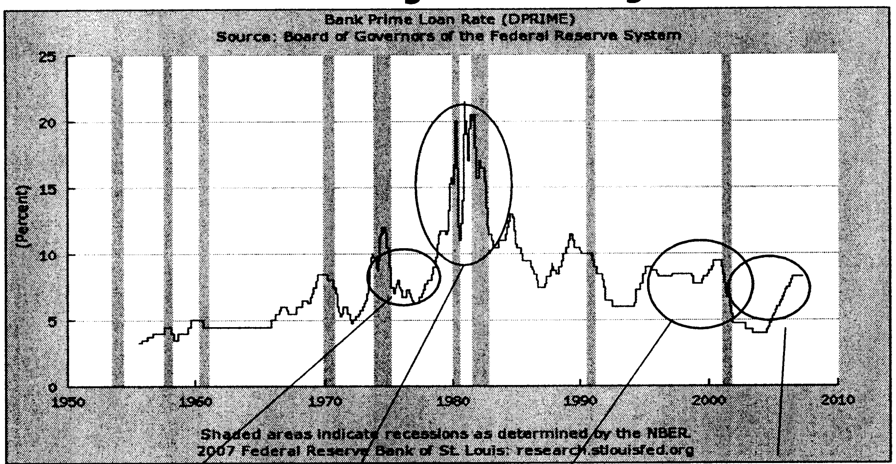
- Foreclosures include large numbers of mortgage investors not the originator of loan
- Sub Prime loans are predominately broker originated
- Foreclosures occur in sub prime dominated census tracts
- Foreclosures occur in minority dominated census tracts
- Foreclosures occur in predominately low, moderate and middle income tracts
- Foreclosure will continue to increase for the next two years

Mortgage Foreclosures Surge in First Quarter		
	Foreclosures First Quarter 2007	Percent Change from a year earlier
Ventura County	203	1092.10%
Riverside County	1,460	913.90%
San Bernardino County	909	718.90%
Los Angeles County	1,702	677.20%
Orange County	520	676.10%
San Diego County	**1,183**	**673.20%**
Southern California	6,007	733.10%
Statewide	11,033	802.10%
Source: DataQuick Information Systems		

Possible Causes to Increased Foreclosures

- Increase on sub-prime loans 2004 – 2006
- Drop in Mortgage Values 2006-2007
- Changing employment matrix
- Increasing rate environment
- Lack of options in mitigation

Factors effecting local housing market

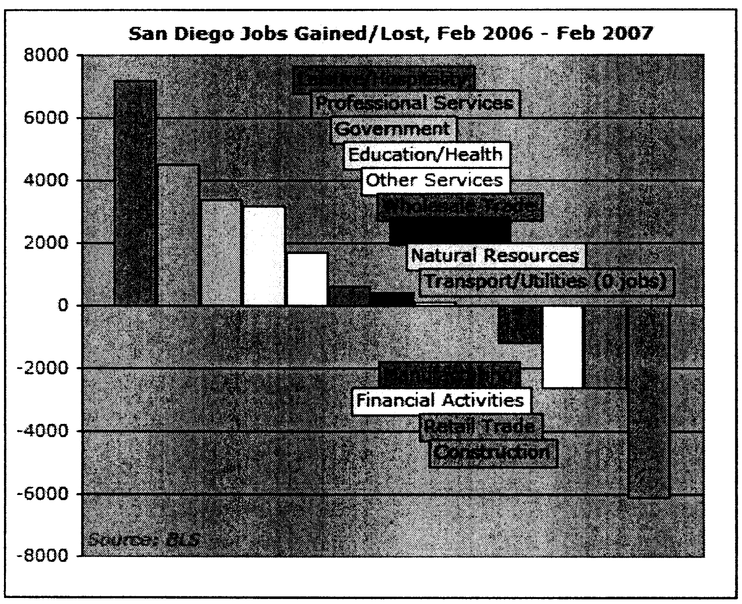


Strong housing growth
Adjustable rate mortgages
Housing demand strong

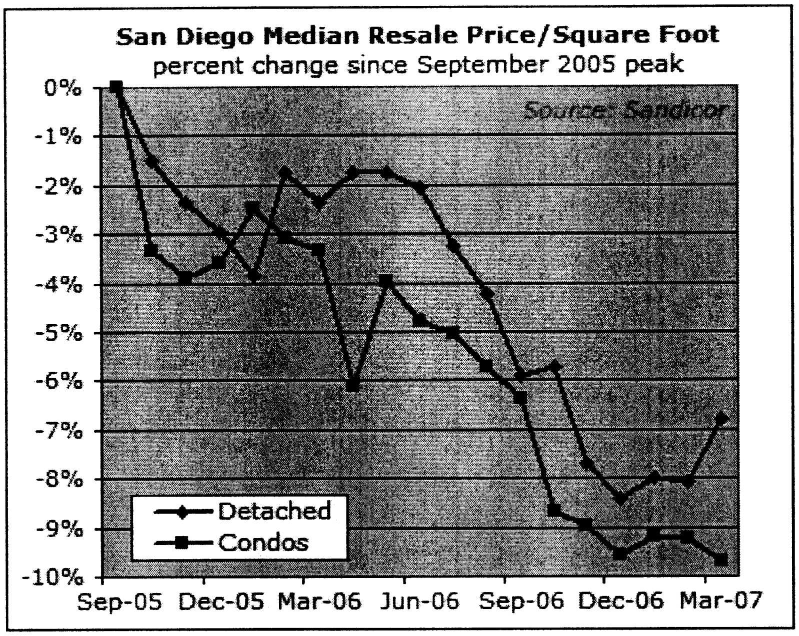
Job sector changes
Real estate prices drop
High interest rates
Increasing Foreclosures
Banks ORO growth
Housing demand drops

Housing demand strong
Housing prices increasing
New mortgage products

Changing job sector
Increasing interest rates
Real estate prices drop
Increase in foreclosures
Housing demand drops



Source: Rich Toscano - VoiceofSanDiego.ORG



Source: Rich Toscano - VoiceofSanDiego.ORG

San Diego County
Notice of Default Compaired to Loan Origination Date

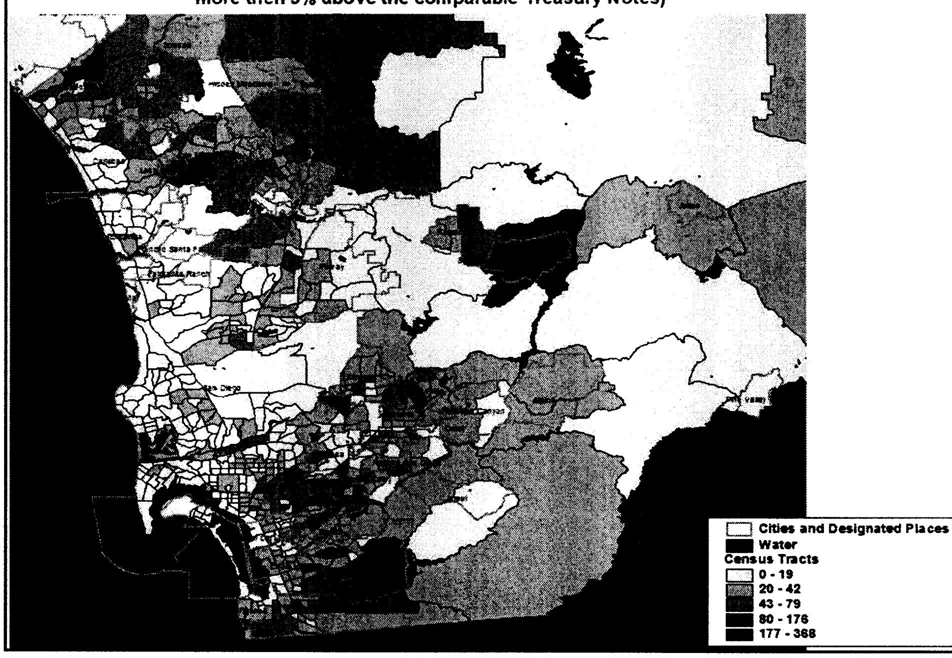
Loan OriginationYear	Recording Notice of Default (NOD) 2005	2006	2007
2004	35.43%	47.91%	16.65%
2005	11.16%	64.73%	24.11%
2006	0.00%	46.48%	53.52%

Sample list of Lenders of Record on Foreclosure Sales 2005-2007

Number Foreclosures Sold 2005-First Quarter 2007

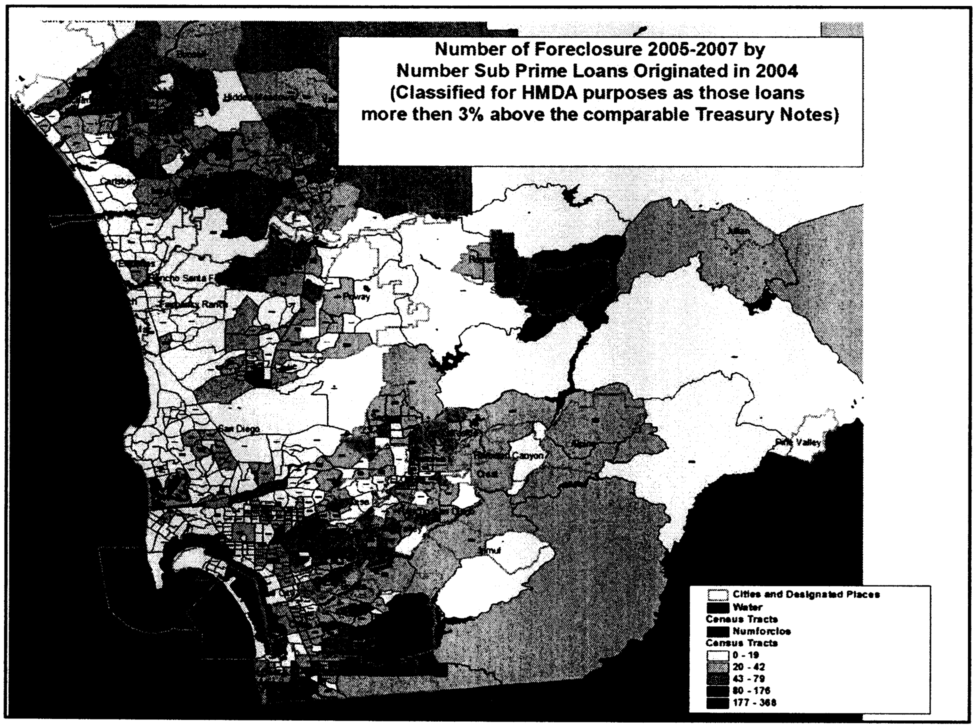
	Chula Vista	Oceanside	Total
DEUTSCHE BK NATL	56	35	91
AURORA LOAN SERVICES LLC	5	2	7
BANK OF NEW YORK	37	21	58
COUNTRYWIDE HOME LOANS	7	5	12
ARGENT MORTGAGE CO LLC	1	3	4
BANC OF AMERICA	7	1	8
US BANK NA	33	25	58
HSBC BANK USA	33	23	56
WELLS FARGO	37	21	58
Total	160	101	261
Grand Total	368	239	607
Percent of City Totals	43.48	42.26	43.00

Number Sub Prime Loans Originated in 2004
(Classified for HMDA purposes as those loans
more then 3% above the comparable Treasury Notes)

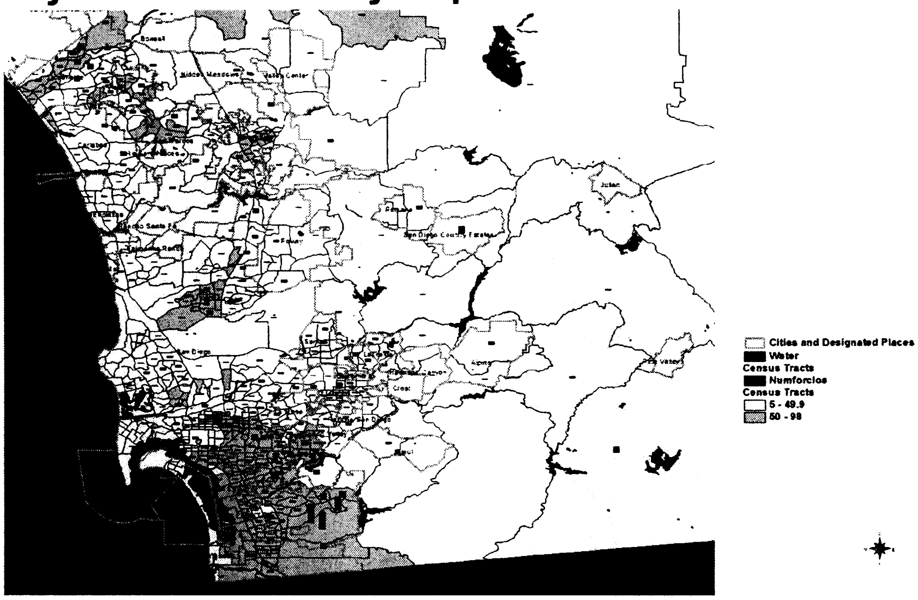


Percent Distribution
Sub Prime and Foreclosures by Income Classification of Census Tract

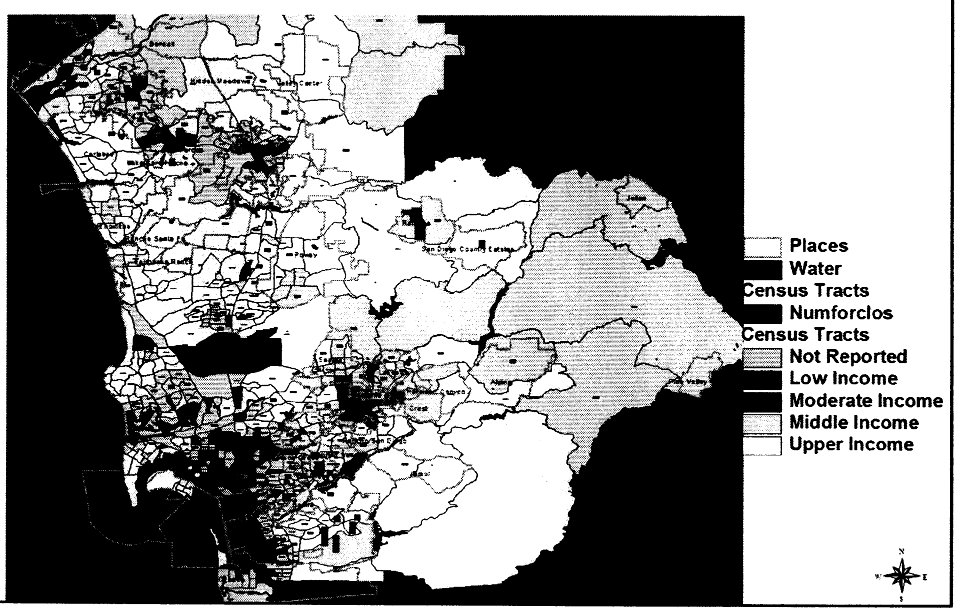
San Diego County 2004 HMDA Originations 2005-2007 Foreclosures					
	INCOME_IND				
Data	Low Income Tracts	Moderate Income Tracts	Middle Income Tracts	Upper Income Tracts	Grand Total
Number SubPrime	1140	3890	7870	4352	17252
PCT SubPrime	6.61%	22.55%	45.62%	25.23%	100.00%
Number Foreclosures Sold	212	614	1379	923	3128
PCT Foreclosures Sold	6.78%	19.63%	44.09%	29.51%	100.00%



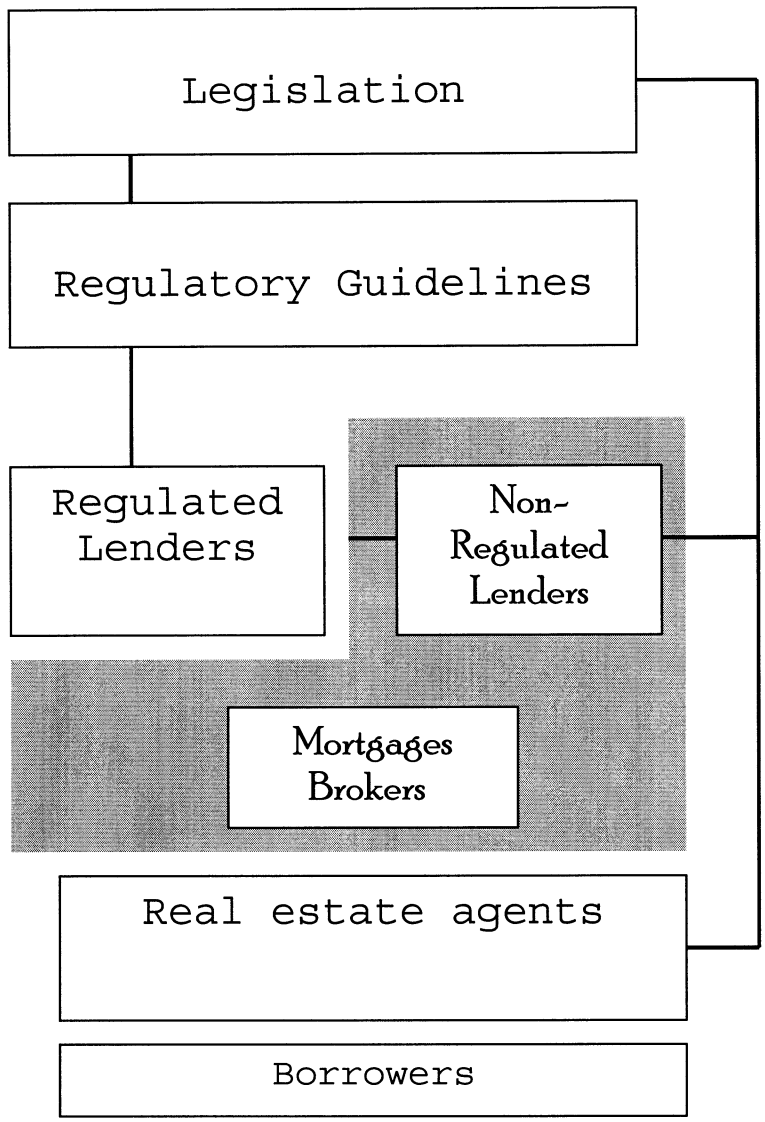
Foreclosures 2005-2007 by Percent Minority Population of Tract



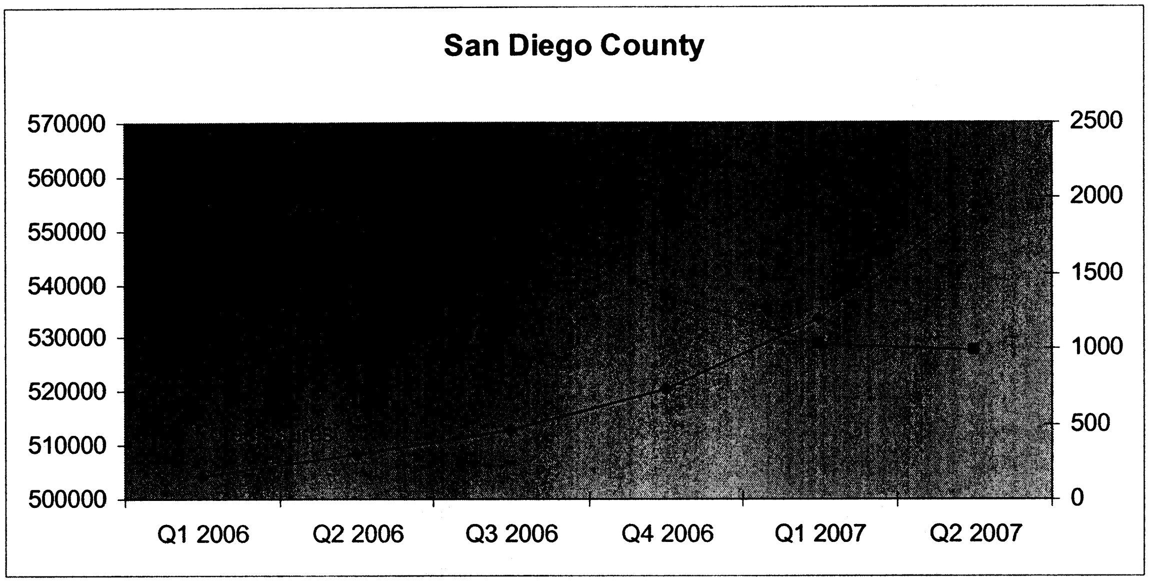
Number Foreclosures 2005-07 by Income Classification of Census Tract

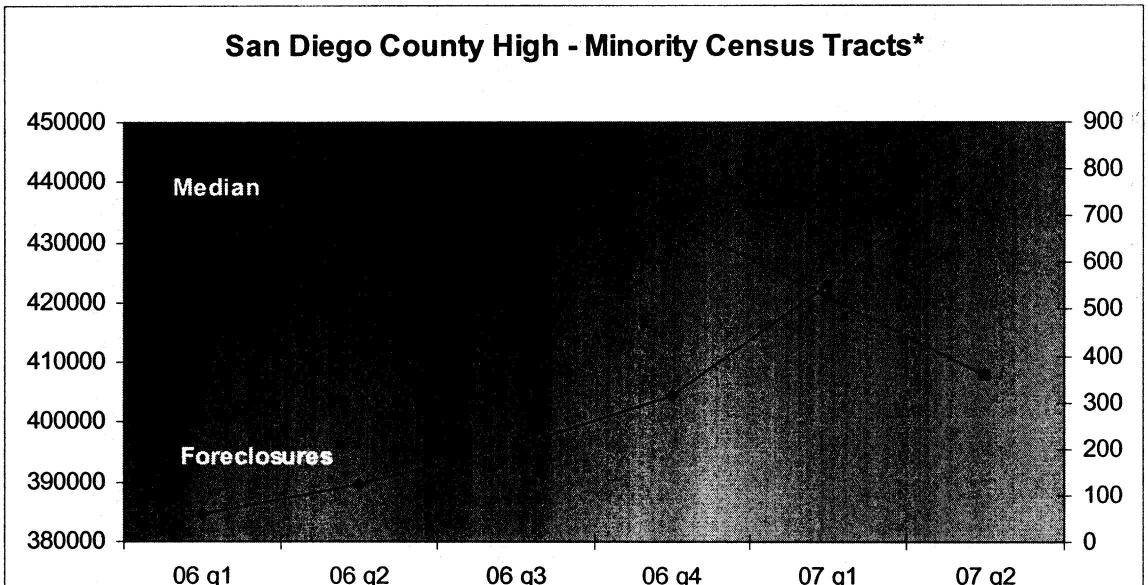


ATTACHMENT 2


Legislation
Regulatory Guidelines
Regulated Lenders
Non-Regulated Lenders
Mortgages Brokers
Real estate agents
Borrowers

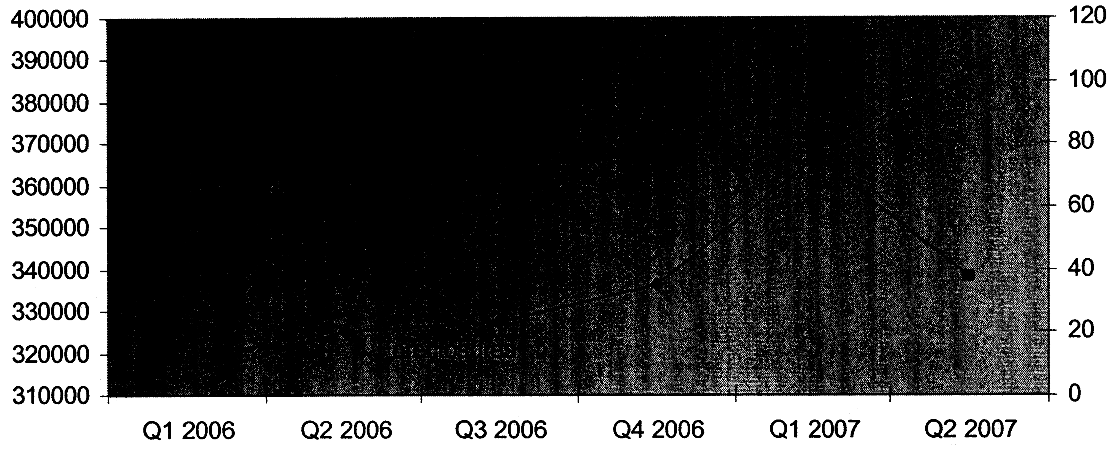
ATTACHMENT 3



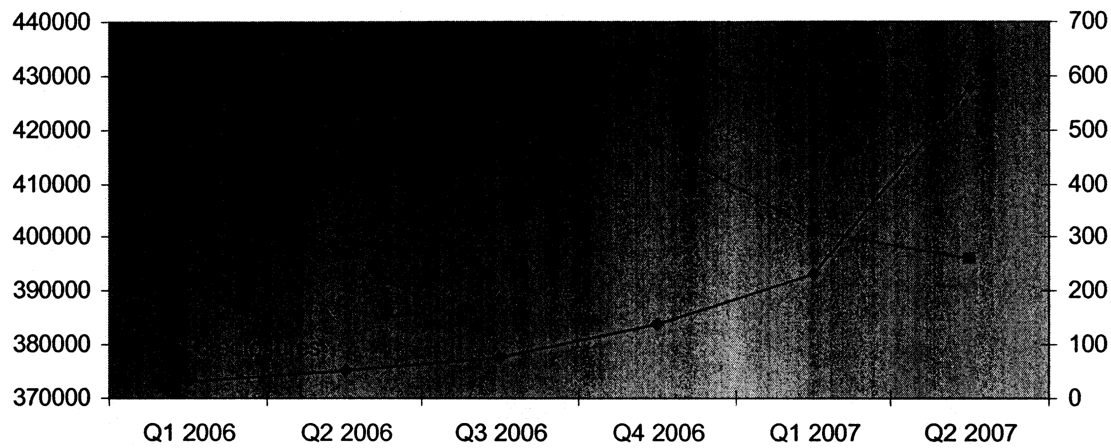


*High Minority Tracts are defined as tracts with 50% or more minority

San Diego County Low Income Tracts



San Diego County Middle Income Tracts



ATTACHMENT 4

Federal Reserve Bank research dated August 14 stated “the Fed survey found that of 16 banks that said they were still in the sub prime market, nine had tightened lending standards in the past three months. The 16 banks are among the nations largest and accounted for 57% of all residential loans.” The survey found that nearly half of the banks responding said they had tightened loan standards for nontraditional mortgages. Martin Crutsinger-Associated Press, August 14, 2007.

Panic Is in the Air as Financial System Implodes

by John Hoefle

Panic is in the air! Jim Cramer declares on CNBC that "Armageddon" is here, and demands the Fed drop interest rates and open the discount window. Floyd Norris reports in the *New York Times* that too many people are heading for the exits at once. Michael Perry, the CEO of mortgage lender IndyMac, declares that the mortgage market is "panicked and illiquid." Headlines on Bloomberg news tout the LBO (leveraged buy-out) "freeze," and UBS analyst Daniel Stillit warns of a "significant risk of the LBO driver coming to a grinding halt." Everywhere you look there are headlines about market turmoil, credit crunches, deals falling though, hedge fund losses, and mortgage foreclosures.

Financial commentator Cramer's Aug. 3 rant on CNBC, in which he exclaimed that the Fed "has no idea how bad it is out there. None!"—is indicative of the fear which has gripped the financiers and bankers of Wall Street and beyond, as they begin to realize that their financial system is disappearing as fast as darkness exposed to light. "People are losing their jobs and these firms are going to go out of business," and the Fed does nothing, Cramer screamed. "The Fed is asleep!... Cut the rate. Open the discount window. Cut the rate! Relieve the pressure. Relieve the pressure! We have Armageddon! In the fixed-income market we have Armageddon. We have Armageddon.... 14 million people took a mortgage in the last three years. 7 million of them took teaser rates or piggy-back rates. They will lose their homes. This is crazy!... This is not the time to be complacent!"

The financial markets are in fact facing a form of Armageddon, though not in the way it is presented to the public. The issue is not "credit," but debt, and the games that have been played to hide the way in which debt has been used to paper over an economy—and a banking system—which is already bankrupt. The central banks have decided to let a big chunk of the system go, in the vain hope that by sacrificing some, they can save the rest.

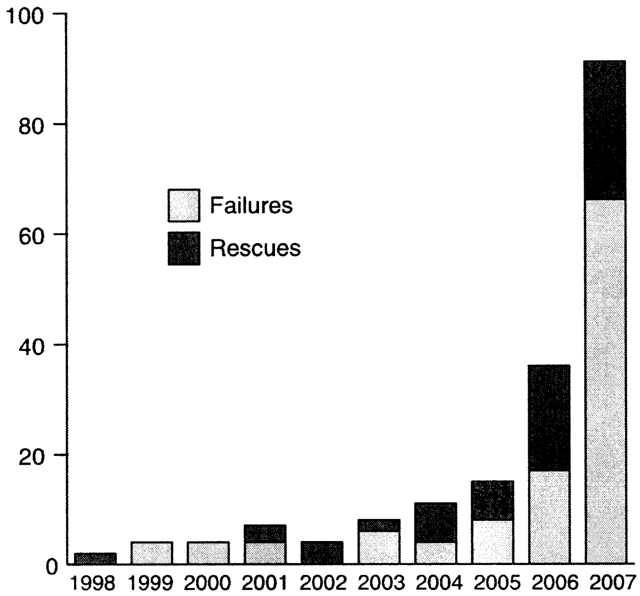
Mortgage-Backed Insecurity

If we are to believe what we read, this growing conflagration started out as a series of defaults on subprime mortgages, which blew out the subprime lenders, which then caused turmoil in the mortgage-backed securities (MBS) market, causing some private equity deals to collapse, and some hedge funds to evaporate, and finally triggering a larger credit crisis. All caused, as CNBC's Diana Olick so charmingly put it, because "American homeowners got greedy, bottom line." Once again, the little people have victimized those poor, unsuspecting international bankers, taking their money, then refusing to pay it back. How rude.

The problem with that scenario is that none of it is true: From start to finish, it is a fabrication which turns reality on its head, blaming the victims and presenting the perpetrators as the injured parties. It is the moral equivalent of the rapist claiming, "She asked for it. She made me do it."

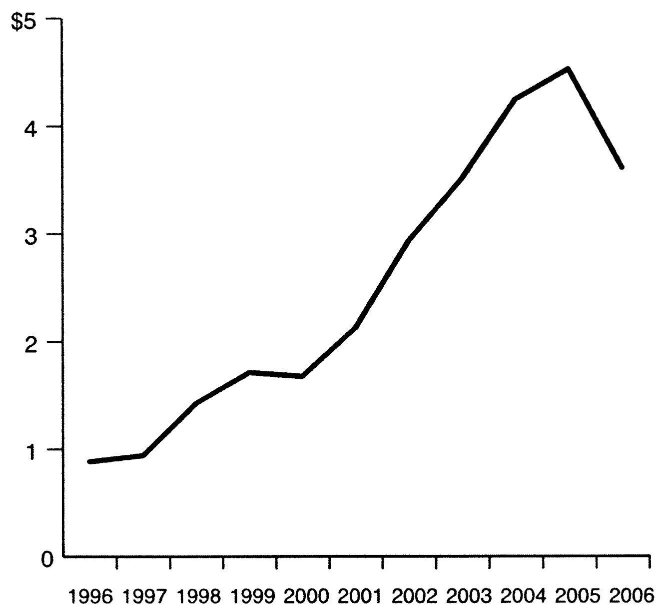
To understand what is going on in the financial markets, and to grasp why the players are so panicked, one must begin with the realization that the U.S. economy has been operating below breakeven for some four decades, as productivity has plummeted and overhead has grown. To cover the difference, we have gone into debt at an accelerating rate, creating huge amounts of debt that can never be repaid. Using a combination of deregulation, accounting trickery, and that fantasy known as the derivatives markets, the bankers magically flipped this bottomless pit of debt into a moun-

FIGURE 1
Failures and Rescues of Mortgage-Related Companies
(Number of Companies)



Source: MortgageDaily.com.

FIGURE 2
Flow of Mortgage Funds Drying Up—Net Annual Borrowing for Home Mortgages
($ Trillions)



Source: Federal Reserve Flow of Funds.

tain of assets, then borrowed even more against them, leveraging and speculating themselves into a pyramid scheme so vast, its size is almost incomprehensible.

One of the schemes the bankers used to keep the game going was the deliberate escalation of real estate prices, since rising real estate "values" created assets which could be borrowed against and speculated upon. The mechanism used was the creation of the mortgage-backed securities market, in which mortgages would be sold by the originators to big banks and financial players; these mortgages would then be combined into pools, and used as the basis for the creation of mortgage-backed securities. Whereas under the old savings and loan system, the mortgage originator would keep the loan until it was paid off, the MBS system allowed the originator to sell the mortgage quickly, and use that capital to make another mortgage. To feed the growing debt bubble being created by the banks, the home-financing system was quickly turned into a mortgage mill, in which the real objective was not to sell homes, but to sell mortgages in ever greater numbers and amounts, to feed the bubble. This "housing market" was in reality a classic pyramid-style debt-farming scheme.

Since this debt-farming scheme requires selling ever more houses at ever higher prices, at the same time that real incomes for most of the population are falling, it became necessary for the bankers to devise mortgage options to fill the growing gap: Lending standards were relaxed, lending terms were loosened to allow lower initial payments, and the sale of overpriced mortgages to people who couldn't really afford them, continued. The subprime mortgage market was created by the bankers to keep the money flowing into the bubble, and the real victims were the people forced to pay artificially high prices for housing.

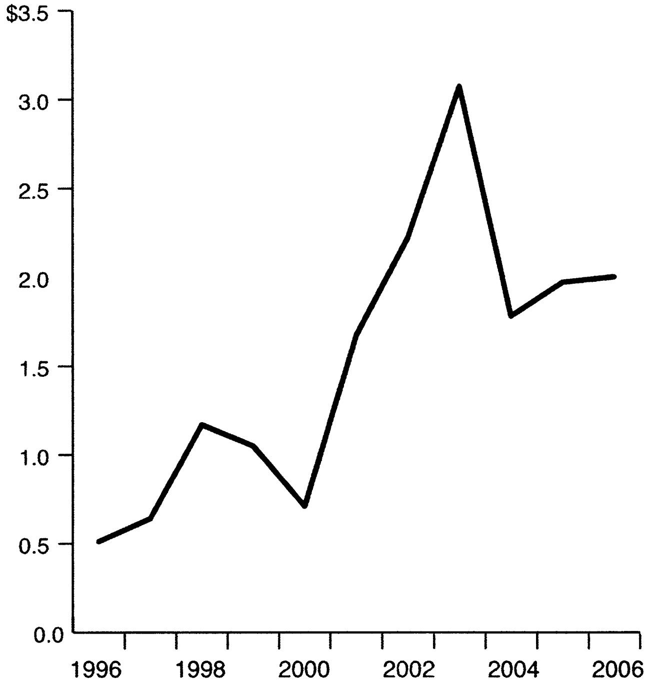
This debt-farming scheme produced a large money flow for the banks and the financial system as a whole, from the original mortgages, to the mortgage-backed securities, and the even crazier collateralized debt obligations (CDOs) and similar paper "assets," all of which could be sold, resold, and used as collateral for further borrowing, creating tens and perhaps hundreds of trillions of dollars of "wealth," extracted from phony real estate valuations and mortgages which can never be repaid.

Obviously, such a scheme cannot continue forever, as eventually the price of homes must overshoot the capability of the public to pay for them, and that is what has happened. The leading waves of foreclosures have occurred primarily in the cities of the Midwest, which have been devastated by the collapse of industry, and in places like California and Florida, where speculation on real estate has run rampant. With the reduction of the inflow of new mortgage money into the system, the issuance of mortgage-backed securities began to decline. Even more disastrous, from the bankers' point of view, was that home prices began to fall in many areas, throwing the whole leveraged mortgage bubble into reverse. Since the vi-

TABLE 1
Some of the Companies in Trouble

Company	Problem
Absolute Capital	Client withdrawals suspended; CDO/ subprime losses
Accredited Home Lenders Holding Co.	Planned sale to Lone Star Fund in jeopardy
AIG	"Mortgage-backed securities, CDO losses"
Alliance Boots	KKR-led LBO funding problems
Allison Transmission	Carlyle-led LBO funding problems
American Home Investment Mortgage	Bankrupt; specialized in Alt-A mortgages
Ameriquest Mortgage Co.	Closed all retail offices; new sales through brokers
Arcelor Finance	Bond issue put on hold
A-TEC	Bond issue put on hold
Bank of America	Various subprime/securities/loan losses
Barclays	Various subprime/securities/loan losses
Basis Capital Funds Management	Client withdrawals suspended; declared in default by lenders
Bear Stearns	Hedge fund meltdowns
Braddock Financial	Closed Galena Street Fund
Caliber Global Investment	Closed; subprime losses
Catalyst Paper	Bond sale cancelled
Caxton Associates	Margin calls from lenders
C-Bass	Margin calls after writedown; seeking capital
Citigroup	Various subprime/securities/loan losses
Commerzbank	Hit by subprime losses
Countrywide Financial	Various subprime/securities/loan losses
DAE Aviation	Barclays postpones loan
Deutsche Bank	Various subprime/securities/loan losses
Dillon Read Capital Management	Closed by UBS
Dollar General	Private equity deal; terms changed to lure buyers
ECC Capital Corp.	Sold mortgage operation to Bear Stearns
EquiFirst Holdings	Sold by Regions Financial to Barclays
First Franklin	Sold by National City to Merrill Lynch
First Gulf Bank	Bond issue put on hold
First NLC Financial Services Inc.	Closed
Fremont Investment & Loan	Shut down mortgage unit
Gazprom	Bond issue put on hold
Goldman Sachs	Global Alpha hedge fund declining
Harmony Gold	Bond issue put on hold
Harvard Management	Losses at Sowood
HSBC	Subprime losses
IKB	Hit by subprime losses
Insight Communications	Funding problems with private-equity bid
J.P. Morgan Chase	Various subprime/securities/loan losses
KfW Group	Covering losses at IKB
Lehman Brothers	Various subprime/securities/loan losses
LoanCity	Closed
Luminent Mortgage	Margin calls
Macqurie Bank	Hedge funds hit by subprime losses
Magnum Coal	Bond issue put on hold
Massachusetts state pension system	Losses at Sowood
Maxeda	LBO-related bond issue cancelled
Merrill Lynch	Various subprime/securities/loan losses
MISC BHD	Bond issue put on hold
MortgageIT Holdings Inc.	Sold to Deutsche Bank
Myers Industries	LBO put on hold
NetBank Funding Services	Shutting down
New Century Financial Corp	Bankrupt
OAC Rosneft	Bond issue put on hold
Oddo & Cie	Closing three funds
Oneida	Bank loan cancelled
Opteum Financial Services	Shut down some operations, sold the rest
Option One Mortgage Corp.	Sold by H&R Block to Cerberus
Oreck	Bond sale cancelled
Ownit Mortgage Solutions	Bankrupt
Oxygen Media	Bond sale cancelled
Quebecor	Bond sale cancelled
ResMAE Mortgage Corp.	Bankrupt; sold to Citadel
Royal Bank of Scotland	Various subprime/securities/loan losses
ServiceMaster	LBO-related bond sale cancelled
Silverton Casino	Bond sale postponed
Sowood Capital	Closed after losses
Stolle Machinery	Bank loan cancelled
Stoneridge	Bond issue put on hold
Thomson Learning	Bond sale cancelled; underwriters left holding debt
Tyco	Bond sale cancelled
U.S. Foodservice	LBO-related bond sale postponed; underwriters left holding debt
UBS	Losses at Dillon Read
Union Investment Asset Mmgt.	Client withdrawals halted on subprime fund
United Capital Asset Management	Redemptions suspended
Wells Fargo	Various subprime/securities/loan losses
Y2K Finance	Subprime losses

FIGURE 3
Pace of Mortgage-Related Securities Issuance Slows
($ Trillions per Annum)



Source: Securities Industry and Financial Markets Association (SIFMA).

ability of the MBS, CDOs, and related paper assets was dependent upon rising real estate prices, the entire edifice began to crumble. Though the failures began at the periphery, the problem was systemic; what was breaking down was not the subprime market, but the financial system itself, of which the breakdown of the subprime market was but the most visible—and highly touted—aspect.

Bare Sterns

The turmoil at Bear Stearns is illustrative. Bear Stearns had made lots of money speculating in subprime real estate, buying subprime loans and issuing mortgage-backed securities on them. As the market began to sour, Bear Stearns did what all the big banks do, namely move the failing paper off their books by selling it to captive hedge funds or other speculators. Unfortunately for Bear Stearns and its hedge funds, the losses at the hedge funds grew so great that the lenders to the funds began to seize and sell their collateral, only to find that it would not sell for anywhere near the nominal value the funds carried it at on their books. At that point, the game was over.

What that little episode revealed, was that the valuations on the books were not real, and though the amount of money involved in the Bear Stearns crisis was relatively small, the implications of the phony values sent shock waves reverberating through a system which itself is chock-full of such phony valuations, trillions upon trillions of dollars of assets which are ultimately based on unpayable debt.

The collapse of the real-estate money pump has triggered, domino-style, a cascade of failures throughout the markets. Some 80 subprime mortgage-related companies have disappeared so far this year, either going bankrupt or closing, exiting the mortgage business, or being sold. Roughly a third of those companies were located in California, with additional clusters in New Jersey, Florida, Texas, and North Carolina. As these companies fail, they spread losses to their shareholders and their lenders, on top of the damage done by the drying up of mortgage lending.

At the same time, the reduced money flow into the financial system, both from mortgage loans and the securities based upon those mortgages, combined with the vaporization of asset values, has created the "credit crunch" which is causing all the panic. Suddenly, the speculators are finding that the money they were counting on to do their deals is drying up. Hedge funds are failing left and right, others are taking heavy losses, and still others are stopping investors from withdrawing their money. Corporations are being forced to postpone bond sales, and private equity firms which announced a record $616 billion of buyouts in the first half of this year, are finding that some of those deals are now in trouble, as the money to complete the transactions is not there. The very system itself is vaporizing, because the value is not there—in fact it never was; the new financial system of Sir Alan Greenspan and Felix Rohatyn is being exposed as a complete fraud.

In all of this, it is the banking system which sits at ground zero. This is neither a "subprime crisis" nor a "credit crunch," but a banking crisis, and a collapse of the entire global financial system. The banking system has survived thus far by a combination of consolidations to disguise failures, the movement of bad assets off their books via the derivatives markets, and phony accounting—with the complicity of regulators who deliberately allow this corruption. The banks are bankrupt several times over, protected only by the illusion that the assets on their books, and the markets they serve, have value, but those illusions—which are all that keeps the banks open—are fading fast.

As the level of panic rises, the central banks will be inundated with calls to bail out the markets, to stop the losses. While these banks stated their intention to hold firm, that determination collapsed at the end of the week of Aug. 6, as the central banks turned on the spigots. As LaRouche observed, they panicked when they realized the dimension of the losses facing the system, and fearing it would all collapse, did what they knew they shouldn't. This itself is a sign of the times, because irrational fear is now calling the shots. The markets are panicked, the banks are panicked, the central banks are panicked, and the system is out of control. This game is over.

ATTACHMENT 5

Quote from Laurie Mangiano- Deputy Director for Asset Management- HUD

ATTACHMENT 6

110th Congress – 1st session – Antipredatory Lending Legislation Comparison Matrix

NCRC Strategic Plan Goal 1: To promote fair and equal access to credit, capital and financial services in the U.S through a Nationwide Antipredatory Lending statute that does not preempt existing state laws without enacting a stronger standard.

Provision	**S 1299 - Schumer Bill**	**NCRC APL Model Bill Language**	**S 1222 Obama Bill -**	**HR 3081 Ellison Bill -**	**HR 3012 Bachus Bill**
Bill Title	The Borrower's Protection Act of 2007	NCRC Antipredatory Lending Bill	Stopping Mortgage Transactions which operate to Promote Fraud, Risk, Abuse and Underdevelopment Act	Fairness for Homeowners Act of 2007	The Fair Mortgage Practices Act
Bill Summary	Seeks to regulate mortgage brokers and originators under TILA and HOEPA by establishing fiduciary duty for brokers. Outlines standards for brokers and originators on ability to repay and holds lenders accountable for broker and appraiser actions.	Act to establish a faith and fair dealing standard among brokers and servicers. Replaces ability to repay language in HOEPA with a stronger standard applicable to all loans. Enhances civil liability rules under TILA. Prohibits appraisal fraud, steering, prepayment penalties, YSPs, balloon payments and requires verification of income in underwriting.	Amends federal criminal law to make it unlawful for any mortgage professionals to defraud a borrower or falsely obtain a benefit from extending consumer credit. Amends HUD to authorize Secretary to provide grants to non–profits for borrower counseling.	To amend the Truth in Lending Act to protect consumers from certain practices with the origination of consumer credit Transactions secured by the consumer's principal dwelling, and for other purposes. Requires verification of counseling prior to refinance or "special" loan. Requires income verification in underwriting.	Establishes national registry of brokers and requires national broker licensing. Directs banking regulators to issue guidance encouraging financial institutions to evaluate borrower's ability to repay and to issue regulations favorable CRA credit for counseling programs that assist LMI borrowers of subprime loans. Requires enhanced disclosures.
Points and Fees Trigger	**Protections apply to all loans**	**8% points above treasury or fees equal 5% or more of loan amount**	-	**Protections apply to all loans**	-

Prepayment Penalties	Per steering provision, originator is prohibited from steering consumer to rates, charges etc. that aren't reasonably advantageous to the borrower	Prohibited for loans that do not exceed FHA loan limits.		Prohibited on all ARMs	Prepayment penalties must end 120 days before initial teaser rates expire on ARM loans.
Escrow requirement	Requires escrow for taxes and insurance for high cost loans	-	-	Requires taxes and insurance under borrower's ability to repay, but does not require escrow.	Escrow required for subprime mortgages
Error Correction	-	Within 30 days	-	Under TILA	-
Broker's Duty	Fiduciary duty assigned to brokers	Expansion of liability	-	Broker Duties: 1. To act in the consumer's best interest 2. To not accept or charge undisclosed compensation. 3. To adhere to law 4. To disclose all material facts to the consumer, which may affect consumer's benefit 5. To act with reasonable care. 6. To account for	-

				consumer's money and property received as agent.	
Tangible Benefit Test (Flipping/ Equity Stripping Provision)	-	Suitability requirements	-	-	-
Ability to Repay	Ability to pay is calculated based on the maximum possible monthly payment (7 yr p)	Ability to pay based on maximum monthly payment, as well as any changes that result from differences in principal payments.	Borrower has rights in foreclosure proceedings.	Broker must qualify borrower based upon: reasonable ability to pay: principal, interest, property taxes, homeowner's insurance, assessments and mortgage insurance For ARM loans, assess ability to repay at fully indexed rate plus 200 basis points	Directs regulators to issue additional guidance that encourage financial institutions to assess borrower's ability to repay
Binding Arbitration	-	Prohibited	-	-	-
Balloon Payments	-	Prohibited	-	-	-
Steering	Prohibited	Prohibited	-	Prohibited	-
Preemption	-	Not preemptive	-	Not preemptive	Preempts certain aspects of state law such as prepayment limits for ARM loans
Suitability provision	Borrower's ability to repay	Borrower's ability to repay and totality of consumer's circumstances	-	Borrower's ability to repay	Directs regulators to issue guidance to encourage institutions to evaluate a

					borrower's ability to repay a mortgage.
Single Premium Credit Insurance (SPCI)	-	Prohibited	-	-	-
Negative Am	-	Considered under ability to repay, not prohibited for all loans	-	Limitations on finance charges	-
Coverage of Brokers	Included	Payments to brokers included in points and fees trigger	Includes any "mortgage professional"	Included	Broker licensing and database registry requirement
Faith and Fair Dealing	For all mortgage originators	For all servicers and appraisers	Criminal and Civil penalties apply for mortgage professionals who knowingly defraud or mislead a potential borrower.	-	Not included
Appraisal Fraud	Prohibition Good Faith reqt	Prohibited	Grants are provided for nonprofit organizations to provide pre-purchase and foreclosure prevention counseling for borrowers. The Office of the Secretary General shall monitor, evaluate and report the fraudulent or deceptive practices of mortgage professionals to law enforcement	Not included	Requires physical inspection of the property on subprime loans. Lenders and brokers are prohibited from influencing the appraisal.
Home Preservation Loan Fund	Request for $300 m appropriation to assist Nonprofits in counseling and loss-mitigation	Establishes a Home Preservation Loan Fund and request $300 mill. Appropriation for counseling for non-profit counseling and	HUD Secretary may make grants to non-profits to provide housing counseling technical assistance, etc. to consumers, giving	Requests no appropriation, but requires counseling on refinance and "special" loans.	Requests $100 appropriation for state and local grant program to non-profit provision of housing counseling

		refinancing of at risk borrowers.	preference to those states with highest rates of mortgage fraud.		between 2008-2011
Limits on Financing	-	Cannot finance points and fees for high cost loans that meet the trigger	-	Limits finance fees greater than 5% of the loan amount.	Not addressed